



Office of the City Manager
City Hall – Thirteenth Floor
455 North Main
Wichita, Kansas 67202

December 1, 2003

The Honorable Mayor Carlos Mayans and
Members of the City Council
City of Wichita
Wichita, Kansas

Dear Mayor and Council Members:

Wichita, its citizens and its City government, is experiencing a difficult time. The economic downturn has left many citizens unemployed. City revenues are lower. Drastic State cuts in shared revenues to cities have compounded even more the burden to provide security and other essential services at a time when service needs are even greater.

*Down, down, down.
Would the fall never
come to an end?*

The Budget is certainly a journey with many bumps along the way. Like Alice, from whose journeys in Wonderland

I just wanted to ask which way I ought to go? Well, that depends on where you want to get to, replied the Cat. Oh, it really doesn't matter, said Alice, as long as I _____. Then, interposed the Cat, it really doesn't matter which way you go.

we will look for parallels, the City must be prepared to closely examine the world around us and adapt. Unlike Alice, the direction taken in this Budget does matter. When resources are scarce, the setting of service priorities is especially crucial. A primary duty of the City Manager is to prepare and propose to the City Council an annual budget plan. Following the City Council's policy direction -- to meet the essential service needs of the public balanced with the City's ability to pay -- has been paramount in my efforts to discharge this duty. It is once again my privilege to place before this community the City Council's **Adopted 2004-2005 Budget**, a guidebook for a City moving forward in tough times.

*Where shall I begin...he asked?
Begin at the beginning...and go
on till you come to the end:
then stop.*

Alice in Wonderland

BUDGET HIGHLIGHTS

- The **Public Safety Initiative** continues to progress with the addition of two new Police patrol beats and construction of fire stations. Additional fire personnel for aerial apparatus staffing and a new eastside engine company are also included. New techniques will be used to sustain School Resource Officer services to high/middle schools after the loss of grant funds resulted in a reduction of officers.
- While the **Infrastructure Maintenance Initiative** lost some funding, efforts are underway to improve operations through re-organizational efforts that achieve efficiencies and economy of scale.
- The **Culture & Tourism Initiative** has moderately lower funding support for cultural attractions, but notable milestones were reached with the reopening of an expanded Art Museum; addition of two regional branch libraries; relocation of CityArts; and tourism marketing that includes the Aviation Festival.
- A **Human Resources Initiative** preserves most City jobs with few, if any, layoffs; finances health insurance cost increases at the current employer contribution level; continues merit step increases; and budgets for a 1.5% pay adjustment in 2004.
- A **balanced budget with no property tax mill levy increase** provides for annual operating expenses to be fully offset from annual operating receipts, pursuant to governing body policy direction.

THE ADOPTED 2004-2005 CITY BUDGET Moving Forward in Tough Times

Wichita, along with most other cities, is faced with major budget challenges. The fiscal situation facing Wichita is multi-faceted.

*I am a poor man,
your Majesty.*

National, state and local economies in major distress have significantly impacted City budget revenue sources. There is also increased demand for local government programs and services due to the economic recession. In 2002, City staff took note of the slow down in the local economy and declining revenues, adjusting City expenditures accordingly. Earlier in 2003, the City Council enacted a multi-million dollar reduction in budgeted programs and expenditures.

*The more there is
of mine, the less
there is of yours.*

Of even greater negative impact to City finances, the State has determined to resolve its budget shortfalls, in part, through the

elimination of State-shared revenues (demand transfers) to cities totaling \$6 million annually for Wichita alone. In late 2002, the Governor cut shared tax resources leaving the City operating budget out-of-balance and without the ability to recover or absorb these losses. During the 2003 Legislative Session, most demand transfers were more or less permanently eliminated, ending State support for cities that dated back to 1937 authorizations.

The scope and duration of the economic downturn, and the lateness of cuts in State-shared revenues were not foreseeable. The severity of State action in eliminating demand transfers was especially unexpected. At a time when major elements of State funding priorities were held-harmless from reductions and most State agencies experienced more modest reductions, cities lost nearly all State-shared revenue (demand transfers).

But I don't want to go among mad people, Alice remarked. Oh, you can't help that, said the Cat: we're all mad here. I'm mad. You're mad. How do you know I'm mad? said Alice. You must be, said the Cat, or you wouldn't have come here.

A recent Governor's assertion that this reduction to local governments only amounted to a 2% reduction was not accurate; in point of fact, cities now

must absorb, disproportionately, lower revenues due to the economic recession combined with loss of significant State aid. Under multiple administrations and in good times and bad, the State has methodically decrementally reduced its funding commitment to cities over a period of

years. Now, with the total elimination of State-shared revenues, it is apparent State government does not view funding support of municipal services as a State priority.

Faced with these realities, the City must now re-examine its fiscal situation. The prime directive remains

*Where do you come from?
said the Red Queen. And
where are you going?*

the same – a balanced budget (no government can long spend more annually than it receives in annual revenues). Other fiscal issues must, of necessity, be reconsidered – program/service levels, user fees for non-essential services, and taxing policies.

Budgeting is forward-looking; sound budgeting practices requires projecting likely budget revenues and expenditures based on expected conditions. The 2004 budgetary projections have the following premises:

- ▶ There will be no improvement in the local economic downturn (as it impacts City revenues) until FY2005;
- ▶ Even with an economic recovery, the City will have a lower revenue base for future revenue growth;
- ▶ State demand transfers cuts will be permanent; and
- ▶ Cash reserves will need to be maintained at a level sufficient to meet future requirements and assure rating agencies and bond markets that the City can meet future obligations.

The City will not be able to balance its 2004-2005 (General Fund) Budget without significantly reducing planned expenditures, or realizing more revenues. The downturn in the economy and State cuts in demand transfers are projected to reduce annual revenues by approximately \$8 million through 2004.

Tough times should not be a reason to suspend progress, but actually a challenge to continue transformation efforts that move the City forward. It is important

*...so many out-of-the-way
things had happened lately,
that Alice had begun to think
that very few things indeed
were really impossible.*

for the community to move forward with initiatives to offer higher quality public safety services. It is important for the community to move forward with partnerships and investments to ensure a better economic future. It is important for the community to continue support of infrastructure and quality of life. It is also important for the City to continue investing in its human resources, our City employees.

Protecting the Public in Tough Times

...but on the whole Alice thought it would be quite safe...

The City's continuing commitment to extend its public safety services is evident in this budget. Even within tight fiscal resources the City has proceeded with the addition of two new Police beats, including Community Police Officers. The new beats also result in a rebalancing of the total (38) beat system so that the entire community benefits from a redistribution of Police call loads.

The loss of grant funding for the School Resource Officer program resulted in a reduction of nine officers. The Police Department is committed to using new techniques to sustain School Resource Officer (SRO) services to high/middle schools. Two possible options have been placed before School officials: (1) a plan for sharing of SRO officers among schools where assignment of a full-time SRO is not possible; or (2) supplemental SRO-type services by other Police personnel, on an as-available basis, to schools with no assigned SRO.

In Fire, the City is proceeding with implementation of the fire station location plan. Five of ten new stations have already been constructed; one additional station site has been selected. Additional positions are included for aerial apparatus staffing and to provide an extra engine company in the high growth areas of southeast Wichita.

Public Safety Initiative – Fire

- ✓ Relocate 8 fire stations throughout the city and add 2 new fire stations, \$15 million capital cost
- ✓ Increase fire staffing for one engine company and staffing on specialty fire apparatus adding 20 firefighters, \$1 million operating cost

One option identified for City Council consideration to fund the additional cost would entail restructuring of the pension systems to achieve a "blended" pension rate, reducing current General Fund expenditures by \$1.1 million beginning in 2005. This savings could then be applied to (substantially) offset the annual operating cost to add additional firefighters as new stations are added.

More also needs to be done in Homeland Security. A multitude of potential security incidents may occur, necessitating a coordinated response from one or more City agencies. It is imperative that command and control is clearly set out in advance. Progress has been made, but more organizational changes will be necessary to ensure optimum response.

Promoting Economic Development in Tough Times

The Wichita community is experiencing a particularly rough time as a result of the current recession. The Center for Economic Development and Business Research at Wichita State University estimated a net loss of 6,700 jobs in 2002 with more layoffs expected in 2003. Thousands more are experiencing furlough periods of many weeks or months. The unemployment rate reached 6.4% with the aviation-manufacturing sector hardest hit.

What do you know about this business? The King said to Alice.

A strength of the local economy continues to be general and commercial aviation manufacturing. Wichita is not, however, a "one-industry town," but can boast a very diverse local economy. A WSU Center for Economic Development and Business Research study confirmed that of 46 metropolitan areas in the study, Wichita ranked 10th in economic diversity.

The City recognizes that Wichita is and must remain a center for business and industry in Kansas, especially manufacturing. To regain its economic vitality, the City must retain and attract new employers; provide a trained labor force meeting job requirements, today and in the future; and extend policies granting necessary incentives for existing or new businesses, large and small, to expand in Wichita.

The City continues to have a strong commitment in developing and enacting policies that are conducive to economic growth and development. The tax exemption/abatement policies, along with Tax Increment Financing (TIF), have been valuable for initiating growth in manufacturing and commercial development. Wichita's efforts in economic development have resulted in 10,575 jobs created (or retained) over the past five years.

Economic Development Program Tax Incentives Impact

	1998	1999	2000	2001	2002
Companies	16	12	19	22	14
Jobs Created	1328	1313	5822	1023	1089

The City has also recognized the importance of inner city redevelopment as an integral part of economic development. The Neighborhood Revitalization Act (NRA) has served to enhance growth in the center city by providing incentives (such as tax rebates and waivers of permits/fees) to individuals and developers who invest in designated low-to-moderate income areas.

The City further enacted a Redevelopment Incentives Plan. This program includes code modifications to promote rehabilitation, identification and marketing of possible redevelopment sites in the inner city, and new financial incentives for targeted redevelopment. The 2004 Budget includes a \$25,000 fund for the City to match private sector dollars in performance of market studies.

The new BizLoan program complements the NRA effort with a \$10 million loan program. The City and some of the largest banks in the community have partnered to provide technical assistance and discounted interest rates on small business loans for new business growth.

A major and continuing economic development effort is to sustain low airfares. The City is investing substantial public resources to support retention of AirTran (east) and Frontier (west). Lower airfares have resulted in annual savings of \$55 million to the (business and leisure) traveling public using Mid-Continent Airport.

The table was a large one, but the three were all crowded together at one corner of it: No room! No room! They cried out when they saw Alice coming. There's plenty of room! said Alice indignantly.

The City has forged a number of important alliances to promote a more unified effort for economic development. The existing partnership between the City, the County and the Wichita

Area Chamber of Commerce jointly funds an economic development office that complements the City's own activities. Extending to neighboring communities, the Regional Economic Area Partnership (REAP) of public sector leaders in south central Kansas jointly addresses regional economic development issues. In workforce development, the City joins with the State and County in offering scholarship assistance through the Kansas Technical Training Institute for new skill training; the City's commitment is \$200,000 in 2003.

A particularly positive emerging partnership is one that combines the existing City-County-Chamber contract with REAP membership and reactivated business sector participation and funding of a new Economic Development Board of Investors with a special Steering Committee. The goals of this expanded partnership is to promote a cooperative effort for economic development within the region, establish measurable achievements with timelines, and increase funding support.

The game's going on rather better now.

Sustaining the Infrastructure In Tough Times

And then...all sorts of things happened in a moment.

Every day in Wichita more than 300,000 vehicles travel 1,800 miles of roads, across 261 bridges, using 373 signalized intersections and 60,000 traffic signs to guide them. Wichitans access over 270 public facilities and 122 municipal parks covering 4,500 acres where at least 160,000 trees are planted. Over 20 billion gallons of potable water is supplied to water customers annually; 15 billion gallons of wastewater is collected and treated.

Maintaining the infrastructure network is a fundamental mission of City government. Over the last several budget cycles, supplemental funding was appropriated to expand maintenance programs for streets, public buildings and parks. Current budget constraints are resulting in some retrenchment in efforts. A portion of the supplemental street and building maintenance funding will be (partially) scaled back for 2003 and 2004 with restoration budgeted in 2005. Park building and small equipment maintenance is transferred to Public Works. This effort is expected to increase productivity as a partial offset to lost funding.

They don't keep this room so tidy as the other, Alice thought to herself.

Park maintenance functions include landscaping at public facilities and along public right-of-ways. The budget also continues funding for two specialized maintenance crews responsible for ensuring that Wichita's public places are in premier condition through enhanced care.

Infrastructure Maintenance Initiative

- ✓ Special Maintenance crew, \$92,020 annually
 - ✓ Median/ROW Maintenance Crew, \$92,020 annually
 - ✓ Building Maintenance, \$155,240 annually
 - ✓ Enhanced Traffic Signal Maintenance, \$83,000 annually
 - ✓ Contracted Street Maintenance: \$600,000 in 2004, \$1.2 million in 2005
 - ✓ Facility Maintenance: \$238,100 restored in 2005
-

Complementing street, building, and park maintenance efforts in the operating budget are available funds through the capital program. Staff will look for ways to combine capital and operating funding to ensure the highest level of infrastructure maintenance possible. Even in these tough financial times infrastructure maintenance will continue as a high priority with only a moderate (and mostly temporary) service reduction.

CITY OF WICHITA

Brooks Landfill operations closed in October 2001. Upon the closure of Brooks, the City assumed a thirty-year period of post-closure responsibility. The Landfill Post Closure Fund reserve is projected at \$29.4 million at year-end 2003, an amount estimated to be more than sufficient to finance future post-closure costs.

Landfill Post-Closure Fund Reserve Status	
Reserve for Post-Closure Costs	\$ 29,426,489
Less: KDHE Certified Liability	<u>27,749,135</u>
Contingency	\$ 1,677,354

Sedgwick County's plan for solid waste management is to construct a series of transfer stations that require this community's waste to be transported to destinations beyond Sedgwick County. Transfer stations are a more expensive alternative for waste disposal, particularly for large volume construction and demolition debris.

To lower costs, the City established a Construction and Demolition (C&D) Landfill. The landfill is located at the former Brooks Landfill site and will serve the City and other private users. Income from this facility will enable the City to continue popular community programs, such as: the bulky waste program, periodic neighborhood clean-ups, and indigent trash collections.

Both Water and Sewer utilities have substantial capital improvement programs that address rehabilitation of existing infrastructure and facility expansion, including extending the water supply to 2050 and constructing new sewage treatment facilities. One capital project recently completed is the relocation of the water maintenance facilities from Sim Park Drive to the maintenance complexes on McLean and in maintenance satellites in east and west Wichita. The relocation will co-locate Water and Sewer equipment and staff at existing Public Works facilities for potential coordination of resources and effort. It will also free the existing site along the river for re-use as part of an expanding Cowtown.

The City operates a Storm Water Utility that maintains the floodway, streams and drainage systems in the community. Funding is provided from a combination of City tax funds, County tax funds and a \$1.40 equivalent residential unit (ERU) fee. The utility provides a basic level of service and maintenance, capital project support, and a special "hot spots" program (\$725,000 annually) for critical rehabilitation needs throughout the storm water

infrastructure. The adopted budget includes a 5¢ increase each year in 2004 and 2005, as part of a financing plan that provides for operating capital project financing and makes this utility self-sustaining, except for maintenance of the Floodway that is jointly funded by the City and County.

Debt service obligations for capital improvements are the primary variable in projected utility rate adjustments. The projected rate increases will be mitigated through initiation of different debt financing strategies and rescheduling planned projects. Recently, the City Council approved a revised strategy for Water/Sewer revenue debt extending the term of debt financing out to twenty-five years for longest term (50-year useful life) elements of the utility capital program. This debt financing strategy is the principal factor in lowering previously projected Water/Sewer rate increases from 5%/8%, respectively, to 3% annual increases.

Projected Annual Water, Sewer, Storm Water Rate Increases			
	2004	2005	2006
Water	3%	3%	3%
Sewer	3%	3%	3%
Storm Water	5¢	5¢	TBD

Responding to growing needs, a special environmental compliance position was assigned the responsibility for environmental stewardship, conservation and pollution prevention. This includes coordination of the initiatives for clean-up of the Arkansas River.

Ensuring Quality of Life in Tough Times

No city is fully meeting the needs of its people if its only focus is public safety, jobs, and infrastructure. Success also means offering amenities and promoting livability. Wichita's diversity also means offering a diversity of leisure, cultural and recreational experiences. City government is a prime sponsor of many quality of life services in the community. Libraries, recreation facilities, botanical gardens, venues for theater and symphonic productions, historical museums, art museums, public art and art education, and other programs abound.

*She found herself at last
in the beautiful garden.*

Even during these tough times, the City has expanded its support of cultural and recreational facilities, programs and services. In the "Museums on the River" corridor, the

City invested \$6 million in a major expansion of the Art Museum with another \$4.5 million raised by the Museum Board. While more needs to be done as financial resources permit over time, the City did increase its contribution to the Museum operating budget by a net \$125,000, plus \$53,200 in Public Works for additional maintenance support for the expanded Museum.

Two new regional branch libraries, one north and one south, now offer greater access to library books and resources. Art education programs will get a new home in 2004 when CityArts moves into a new facility on the Cinema Old Town Plaza.

In the recent past, Park recreation programs for youth received boosts in funding for the Summer of Discovery program, replacement of playground equipment, and a focus on neighborhood and at-risk youth recreation services. One new soccer/softball venue was constructed in south Wichita and another major soccer/baseball venue is under development in northeast Wichita. A new public golf course was completed in west Wichita.

With a combination of grant and local funding, Neighborhood City Halls are now established at locations affording convenient access to public services. Council members have satellite offices providing an opportunity for better accessibility to citizens and increased convenience for District Advisory Board and other neighborhood meetings. Neighborhood Assistants anchor the facilities, complemented by other City staff providing community education, library, community police, neighborhood inspection and recreation programs and services. Public access computers provide citizens with Internet access and for other technology uses.

Neighborhood City Hall Initiative (General Fund Support)

- ✓ City Council Offices, \$20,200 annually
- ✓ Neighborhood Assistants, \$13,000
- ✓ Community Police, \$19,940 annually
- ✓ Neighborhood Inspectors, \$22,360 annually
- ✓ Customer Service staff, \$146,760 annually
- ✓ Custodial/Maintenance support, \$87,830 annually

Over the last several years, the City has embarked on a major effort to promote tourism. Funding in the amount of \$446,500 is provided to the Convention and Visitors Bureau to continue marketing and promotional efforts associated with the tourism initiative. One of the elements of that effort is the Fall Aviation Festival. The budget includes support directly by the City, along with private

funding, for the 2003 Festival. The City is also funding tourism Web site development in the amount of \$70,000.

Culture and Tourism Enhancements

- ✓ Art Museum Expansion, \$6 million (City)
 - ✓ Public Art Maintenance, \$60,000 annually
 - ✓ Tourism Initiative, \$516,500 annually
 - ✓ Southlakes Sports Complex, \$177,740 annually
 - ✓ Northeast Sports Complex, \$128,730 annually
 - ✓ 2 new District Libraries, \$142,770 annually*
- *Net impact after neighborhood branch consolidation

Aesthetics remains a priority for the City. Together with private partners, the City has made substantial investments in public art. Recent private donations allowed the City to install fifteen sculptures lining a renovated Douglas Avenue. The Reflection Square vest pocket park now hosts a sculpture that pays tribute to a Wichita institution, the diner counter in the Woolworth's store that occupied that parcel for over 50 years. The gateway at Central and McLean is home to the (neon) Light Towers honoring Wichita's history as the *Neon Capital*. In recognition of the City's efforts to improve the aesthetic environment, the Budget includes funding for the maintenance of City-owned public art. In the future, private fund raising efforts will seek to include costs for both acquisition and maintenance in donations.

For many Wichitans, quality of life depends upon public transportation. Buses (53), vans (24) and trolleys (5) provide 2.4 million trips annually. Transit operations are primarily locally funded (\$5,160,640 annually) with Federal and State funds supplementing service costs and providing funding for capital purchases. Thirty-nine new buses were recently deployed costing over \$10 million. To complement the existing maintenance staff, an additional position is budgeted to provide more detailed cleaning of the vehicles. New shelters and fareboxes will further enhance the transit system. Transit is also involved in providing special work-related transportation services in connection with the *Access to Jobs* program.

Transit Enhancements

- ✓ 39 new buses, \$10 million
- ✓ New bus shelters and benches, \$483,000
- ✓ Increase para-transit services, \$100,000 annually
- ✓ Electronic Fareboxes, \$346,000
- ✓ "Access for Jobs" transportation, \$400,000 annually

Para-transit services for mobility-impaired citizens have grown at an average rate of 13.5% over the last 5 years.

This trend is anticipated to continue. Two positions were added to the budget in response to the needs of the disabled, a para-transit van driver and a scheduling clerk. The clerk will assess individuals with special needs and schedule them on para-transit vans when appropriate, and then assist them with utilizing regular transit services should disabilities be temporary.

Supporting Human Resources in Tough Times

The City is first and foremost a public service organization that delivers public safety, maintenance, transportation, water/sewer, cultural/leisure, community development, and social services to every Wichitan, every day of the year. Taxpayers, in turn, make the largest investment of their tax dollars in compensating more than 3,800 (full and part-time) City employees.

*We must support you,
you know, the White
Queen whispered.*

During this difficult economic period, City employees have been called upon to provide more and better services to the public, even in the face of reductions in the workforce and fewer resources to carry out their work. It is important to recognize the hard work of City employees by sustaining, to the extent financially feasible, their present and future economic well-being; ensuring their safety in the workplace; and providing them with the tools to perform productively.

At the end of 2003, the City is completing a three-year labor agreement with its employee unions: Fraternal Order of Police, International Association of Firefighters, Service Employees Union, and Teamsters. Negotiations are now underway for successor contracts. It is hoped that new agreements can be reached from a continuation of the past collaborative process between the City and its bargaining units, balancing fair wage and benefit enhancements to recruit new employees and retain dedicated, long-term employees within a framework that is affordable to a financially distressed City and its taxpayers. An Employees' Council represents non-union employees. The labor-management Health Insurance Advisory Committee is also currently exploring options for affordable health insurance for 2004.

A 2004 wage and benefit enhancement package is adopted that offers a general pay increase to offset the impact of moderate inflation, continues to fund merit pay adjustments through the year as an incentive for increased productivity, and funds expected significantly higher costs for health insurance.

Adopted 2004 Employee Compensation Package (Millions of Dollars)

All Funds

General Pay Adjustment 1.5%	\$2.0
Continued Merit Increases	\$2.6
Health Insurance Cost Increase	\$2.8

General Fund

General Pay Adjustment 1.5%	\$1.4
Continued Merit Increases	\$1.9
Health Insurance Cost Increase	\$1.9

The City also offers its employees a superior package of pension benefits that were last increased in 2000 at a cost to the City equivalent to a 3.9% increase in wages. Those benefits are sustained during the market downturn that has eroded pension system funding levels. The City commits in this budget to continue funding of the pension systems at the actuarially required level.

City Retirement Systems Profile

Combined Assets as of 12/31/02: \$661 million

Police & Fire (P&F)

Active Employees	1,028
Retirees	833
Funding ratio	106.2%
2004 Employer contribution (% payroll)	14.0%

Wichita Employees (WER)

Active Employees	1,904
Retirees	1,052
Funding ratio	117.0%
2004 Employer contribution (% payroll)	4.7%

The City continues to emphasize job safety of employees as essential to the City organization. This includes safety equipment purchases and funding of safety efforts initiated by a labor-management Safety Committee.

A rapidly growing support mechanism for employees in carrying out their work is technology, as it reshapes the way people and organizations communicate and work. Technology is no longer merely useful in supporting City services; it is essential.

Computer Systems	# Users
Police/Court/Fire	1,208
Office Automation	1,234
Park/Library	180
GIS	173
Central Inspection	249
Finance/Payroll/Utility Billing	324
Internet Access	378

www.wichita.gov

REVENUES AND EXPENDITURES: The Financial Picture

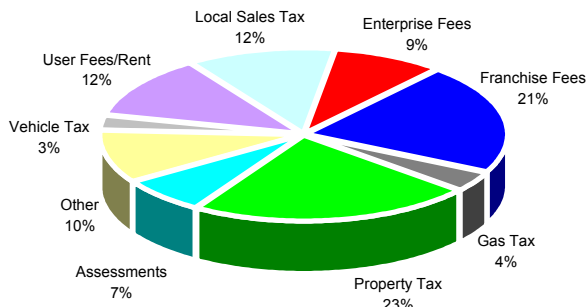
Budgeted revenues for 2004 of \$349,392,430 are derived from several major sources. Certain major revenue categories (e.g. special assessments and gas tax) are legally dedicated resources and can only be used to offset specific expenses. Total revenues are exclusive of internal services, fiduciary funds, enterprise construction and interfund transfers (eliminating double counting and co-mingling of operating and capital funds).

What is the use of a book, thought Alice, without pictures...?

The City's revenue picture reflects years of effort to diversify its funding sources. While the City's revenue base remains diverse, the impact of the downturn in the economy and cutbacks in State aid (demand transfers) has reversed the trend somewhat, increasing reliance on the property tax as a revenue source to fund basic municipal services.

2004 TOTAL REVENUES

\$349,392,430



The mill levy required to finance the Adopted 2004 Budget is 31.845 mills, no change from the levy requirement for the adopted 2003 Budget. The mill levy is divided between the General and Debt Service Funds:

FUND	LEVY
General Fund	21.845
Debt Service Fund	<u>10.000</u>
Total	31.845

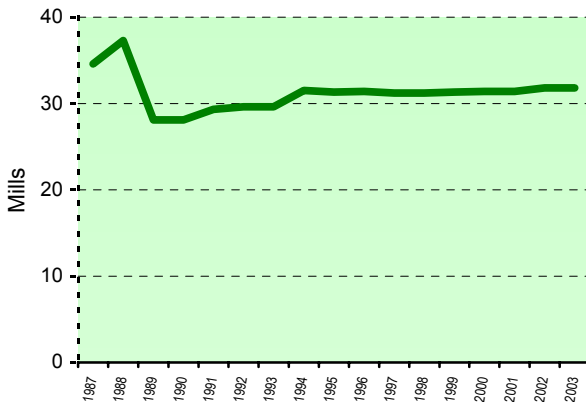
On a comparative basis with the 24 other first class cities in Kansas, Wichita remains below the 36.2 mill average. When compared with the 26 other cities within the Wichita Metropolitan Statistical Area (MSA), Wichita's levy also compares favorably with the average of 46.2 mills for combined municipal and/or fire district services.

[Note: Averages are based on 2002 tax levy information and may change as other cities adjust for 2003 tax levies to fund 2004 budgets.]

Assessed valuation is the measure of property values for taxation purposes. The County's preliminary estimate of assessed valuation is \$2,463,498,700, an increase of 8% over the previous year. Final assessed values are set (by the County) after the City's budget is adopted.

CITY MILL LEVY

1987 to 2003



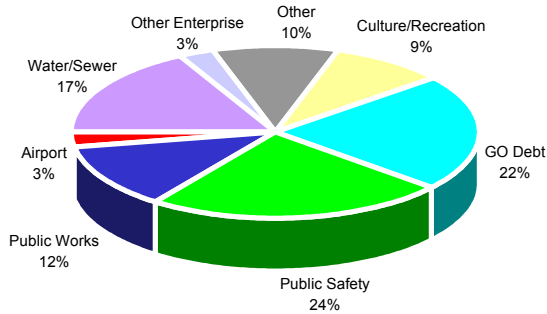
The average home in Wichita is valued at \$90,336. City property taxes annually will amount to \$331 per year, or \$27.57 per month. A family of four will likely spend about as much (or more) per month for cable television, telephone service, Internet service, or one family trip to the movies. These comparisons serve to emphasize the value represented in municipal services. For their annual City property taxes, citizens are provided vital police and fire protection, streets, parks, libraries, and a myriad of other services.

In lieu of a tax lid, the State Legislature imposed a stipulation that the City, by ordinance, acknowledge any growth in General Fund spending based on an increase in property taxes not derived from new development, increased personal property valuation, annexation, or change in use. The estimated amount of increased property tax revenue is \$2,845,882.

Adopted 2004 expenditures total \$367,666,960 for all funds. Increases in the expenditures are primarily the result of higher wage/benefit costs, the landfill closure contingency, and one-time adjustments in capital project costs (the latter two account for the higher annual 2004 expenditures and these will return to a normal balance in 2005). Factoring out a one-time fluctuation in debt service costs, total expenditures are actually 2% **lower** in 2004 than 2003. Expenditures by program/service groups are summarized in the chart.

2004 TOTAL EXPENDITURES

\$367,666,960



Total revenues and expenditures are aggregated and reported to show a combined budget picture. In practice, each fund is a separately certified budget.

GENERAL FUND

The General Fund is the largest of the City's operational funds, accounting for nearly half of the total City budget. Public safety, public works, parks and recreation, health, local property tax subsidies for transit, and general government are the principal programs supported by this fund. The General Fund is one of two major funds that rely upon the ad valorem property tax as a major revenue source.

Overall, General Fund revenues are projected to be 1% **lower** than 2003 adopted, but 3.7% **lower** than 2004 projections prior to the recession and State demand transfer cuts. Absent a property tax rate increase, it was possible to identify optional revenue enhancements to only partially offset revenue losses.

General Fund Revenues Adopted Increases

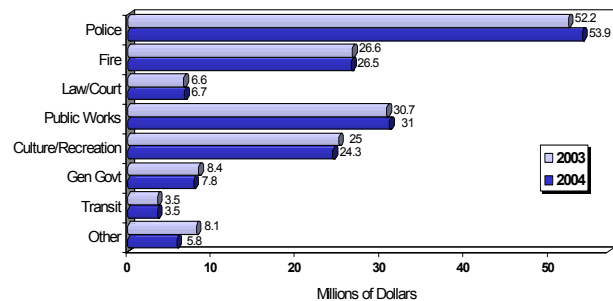
Increased Public Safety Fees	\$1,530,000
Capital Project Cost Allocation	300,000
Park Fee Increases	250,000
Administrative charges	248,020
Diversion Fee Increases	170,000
License Fee Increases	160,000
Pooled Investment Surcharge	75,000
Old Town Parking Fees to \$10	45,000
Property Tax Rate Increase	None

The General Fund is balanced for 2004 at \$160,089,470 in revenues and expenditures. The chart provides an overall picture of the allocation of General Fund expenditures by general category. It reflects policy priorities in the General Fund emphasizing public safety, infrastructure, and cultural/recreation services.

To re-balance the General Fund budget, many options for expenditure reductions were considered for inclusion in the Adopted 2004-2005 Budget. Highlighted below are some of the items adopted for implementation.

GENERAL FUND EXPENDITURES

2003 - 2004



The reductions in the Adopted Budget represent a shared burden spread across all City departments, including non-General Fund operations that will pay higher public safety fees, administrative fees and surcharges while absorbing the impact within existing rate structures. Other reduction options will be presented for consideration during upcoming budget workshops.

General Fund Expenditures Adopted Reductions

Non-Fire Position Reductions	(\$1,297,700)
Street Maintenance	(600,000)
No Mgmt/Exempt GPA	(540,000)
Fire Positions Not Filled (7)	(450,000)
Park Maintenance	(318,430)
Reforestation	(250,000)
Building Maintenance	(238,100)
Technology Resources	(202,090)
Employee Training	(150,000)
Nuisance Abatement	(100,000)
Neighborhood District Grants	(75,000)
Cultural Subsidies	(73,000)
Community Relations	(41,740)
Memberships	(36,170)
Research & Development	(25,000)
Across-the-board Line Items	(10,770)

Of particular concern of the adopted budget cuts is the (indefinite) deferral of some firefighting personnel for staffing a prospective new fire station. It is important to continue with this critical element of the Public Safety Initiative to ensure improved emergency response coverage in the community. The additional fire personnel are not immediately required, but any delay past 2005 will result, of necessity, in a delay in implementation of the fire station location plan.

A possible funding option has been identified that would produce \$1.1 million in resources toward the \$1.4 million required. If the City Council were to authorize a merger of the two pension systems (P&F and WER), a “blending” of the current two pension system contribution rates (14% P&F and 4.7% WER) would be possible. This rate “blending” produces a redistribution of pension costs among funds lowering General Fund pension costs. A (five vote) majority of the City Council would be required because it would entail amending a charter ordinance. The merger and pension rate change could not be accomplished before 2005.

Another concern is the necessary reductions in maintenance (streets, buildings and parks). Staff will work with capital funds to mitigate the adverse impact, and a reorganization of maintenance between Public Works and Park will improve efficiency. A strategy is needed longer term to increase maintenance funding so that the condition of the City’s infrastructure does not erode.

General Fund cost increases for wages and benefits are offset by position reductions holding personnel services flat from Revised 2003 to Adopted 2004. Moderate inflationary pressures in contractual and commodity expenses (e.g. fuel costs) were absorbed.

OTHER FUNDS FOR 2004

Enterprise Funds

Water/Sewer operations are projected to require moderate rate increases (3%) required to meet capital investments. Storm Water ERU rates are adjusted by 5¢ each year for 2004, 2005. No Golf fee adjustment is projected as required for 2004 at the present time.

Special Revenue Funds

The current 10% discount on Central Inspection fees will likely be discontinued later in 2003. Declining Transient Guest Tax revenues are forcing some cuts in convention/tourism support, as well as the elimination of (2003) funding support for CII/Expo Hall renovations.

Internal Service Funds

A (one-time) fleet rate holiday was enacted in 2003 as part of a stopgap expenditure reduction effort, but cannot be continued into 2004. A revised IT/IS rate structure has lowered technology costs per user to reduce expenses overall as well as to the individual user.

2003 REVISED BUDGET

The Budget includes revised estimates of current year revenues and expenditures. The procedure of revising the budget is an important element of effective financial management, designed to provide an updated estimate of trends in the current year and to improve budget development for the next year.

In most instances, revised budgets remain within the previously adopted budget levels for each fund. Occasionally, revised estimates resulting from changing needs, or City Council actions, mean an increased expenditure level and require a re-certification of the budget.

For 2003, total expenditures (all funds) are estimated to be approximately \$340 million, **lower** than the adopted budget of approximately \$357 million. The reduced budget amounts are due principally to lower personnel costs, more moderate contractual expenses, and lower one-time expenses.

Revised estimates of expenditures in the 2003 General Fund are \$155,307,390, **lower** than the adopted budget amount of \$161,122,590. Similar to the total budget, reduced expenditures in the General Fund are found in lower personnel costs, contractals, and one-time expenses. Despite expenditure reductions, it is projected 2003 General Fund expenditures will exceed revenues, reducing cash reserves by \$2,157,110. Debt Service Fund revised expenditures are projected at \$62,636,580, only a marginal variation from the adopted budget. Other funds within the 2003 Budget entail revisions based on changing needs, and are noted by fund.

2005 PROJECTED BUDGET

The 2005 Budget projection is for \$354,417,860 in expenditures. This represents a 4% decrease from 2004. Cost increases in wage and benefit costs are offset by lower debt service expenses.

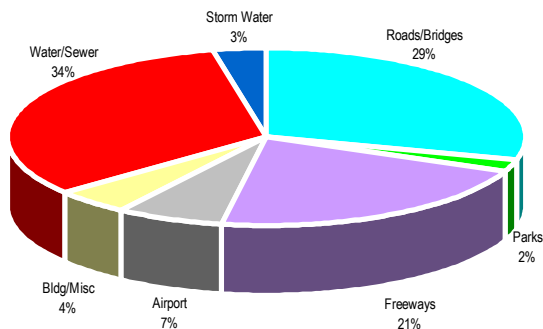
The General Fund is projected to increase in 2005 to \$164,747,650, a 2.9% increase over the 2004 Budget. The projected increase is due to anticipated increases in employee wage and benefit costs, and restoration of some maintenance funds. The 2005 General Fund is also projected to be balanced with no cash reserve draw.

CAPITAL IMPROVEMENT PROGRAM

And what are they made of? Alice asked in a tone of great curiosity.

The ten-year Capital Improvement Program totals approximately \$1.6 billion. Revenues to finance the capital program include: Property Taxes (17%), Local Sales Tax (15%), Special Assessments (8%), Grants (22%), and Enterprise Fees (35%) from airport, water, sewer, storm water, and golf, and Other (3%).

2002-2011 Capital Improvement Program \$1,639,480,000



The City finances capital projects in a variety of ways: general obligation bonds/notes, revenue bonds, grants, and cash. The most significant of these are General Obligation (GO) bonds based on the full faith and credit of the City. GO bonds provide debt financing not only for property tax-funded projects but for capital improvement projects where debt service payments are paid by City enterprises (e.g., Airport, Golf, Storm Water). Based on Generally Accepted Accounting Principles (GAAP), the debt service payments for General Obligation (GO) debt are spread either to the Debt Service Fund or the various enterprise and internal service funds, as appropriate.

The City maintains a high-grade (AA) bond rating. Further, the City demonstrates prudent debt practices under State law with City debt well below the legal debt margin at only 36.5% of the actual legal margin.

Projects are primarily initiated in the departments of Public Works, Water and Sewer, Park, Transit and Airport. The Program includes funding for freeways, arterials, bridges, facilities, utilities, parks and other amenities.

Debt Service Fund

The Debt Service Fund pays expenditures related to most of the City's General Obligation debt. The first

obligation of the Debt Service Fund is to make all debt service payments on existing City bonded indebtedness. Based on revenue estimates and assuming a constant property tax levy (10 mills), the remaining resources of the fund are used to assume debt obligations for new capital projects. Funds not required for long-term debt are used to pay for capital project expenses in the form of temporary notes that are retired in the same year (e.g., "pay-as-you-go" financing).

The Debt Service Fund is positioned to support both existing debt and finance new capital projects. Cash reserves of the fund will be reduced to \$3.5 million by 2004. While this reduction is substantial, the target level of reserve for this fund is not-to-exceed 5% of annual expenditures. The fund is stable as to revenues and most expenditures are incurred late in the fiscal year. A review of the CIP is currently underway. Revisions to the capital budget will be submitted to the City Council in August.

Local Sales Tax (LST) Capital Projects

Since 1985, the City has set aside one half of all local sales tax proceeds, estimated at \$21 million for 2004, to support the transportation capital program, with a principal emphasis on freeways. Major LST-funded projects currently underway include freeway segments on Kellogg/US-54 at Tyler/Maize on the west and Woodlawn and Rock Road on the east; the Central Rail Corridor; and \$6 million annually in arterials. Following completion of the projects underway, diminished growth in the local sales tax is likely to curtail additional new projects.

RESERVES

Each of the funds in the City's budget has a separate cash balance position. The cash reserve position of the General Fund is projected to

be approximately \$8.5 million unappropriated reserve and \$10.4 million appropriated reserve by year-end (2003). This reserve provides a margin to cover an unforeseen shortfall in anticipated revenues, unexpected expenditure requirements, one-time expenditures, or support for future year costs without a property tax increase.

The General Fund cash reserve (in total) represents 11.8% of 2004 expenditures. It is noted that even if the reserve is maintained at the same dollar amount, it will decline as a percentage of expenditures in the coming years. Significant unknowns remain on the horizon for

*Can you do subtraction?
Take nine from eight.
Nine from eight I can't,
you know, Alice replied.*

the City's budget in terms of a continued soft economy, a potential for further cuts in aid from the State, as well as the uncertainties of other major revenue streams. The cash reserve position of the Debt Service Fund is projected at 5%. The reserves of other funds vary as necessary for the specific circumstances of each fund.

Cash reserves are appropriate and necessary for a variety of reasons:

Revenue Volatility	Funds relying on revenues that may vary significantly due to economic or other conditions (e.g., weather) will need higher cash balances than those funds relying on more stable revenues.
Timing of Cash Inflows/Outflows	When either receipt of income or the payments for obligations are less predictable or subject to significant fluctuations, relatively higher levels of cash reserves may be necessary to maintain liquidity.
Contingency	An unencumbered cash balance provides financial resources to meet most unforeseen contingencies and liabilities while avoiding the necessity of tax/rate increases or use of "no-fund" warrants.
Legal Requirements	Some funds may have legal/regulatory constraints as to either minimum or maximum cash reserve levels, or a contractual obligation governing cash balances (e.g., bond covenant).

The cash reserve position is also a significant factor evaluated by bond rating agencies assessing the financial strength of a community. Cash reserves, both as to level (dollar and percentage) and trend (whether reserves are increasing, decreasing or stable), mirror the continued ability of a city to meet its obligations and the willingness of local elected officials to set tax rates commensurate with requirements for a balanced budget.

The classic definition of a balanced budget is when annually recurring revenues offset annually recurring expenditures. In some funds, expenditures are occurring at a higher rate than revenues, creating a budget imbalance and net reduction in cash reserves. This funding strategy is possible only for a limited period of time if reserves are above target limits. As reserves decline, it will be necessary to restore a balance through expenditure reductions, increases in revenues, or both.

Precipitous declines in reserves would not be prudent management, nor would such action be recommended. Utilizing the City reserves to balance the operating budget without reducing expenditures, would be short-sighted and not be in keeping with past management practices. The State of Kansas is in near bankruptcy now because State decision-makers were not realistic in assessing their financial circumstances and then late in responding, magnifying their problems. The City has a small window of time to make budget adjustments, but realistic actions must commence sooner rather than later.

IMPROVING OPERATIONS

The City's efforts do not start and do not end with approval of the annual budget. It is necessary to put into place the means to ensure that taxpayers receive the maximum value in programs and services for each tax dollar spent.

Now here, you see, it takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!

During the course of each year, City staff continues to focus on ways to reduce costs and improve services. Continuing improvement efforts have led to restructuring of fleet operations, field maintenance, technology support, and services to the public through Neighborhood City Halls. In light of the economic downturn, transformation efforts have intensified to restructure City operations to lower costs, releasing monies for new priorities, while maintaining high service levels. Significant transformation efforts are also planned for the coming year:

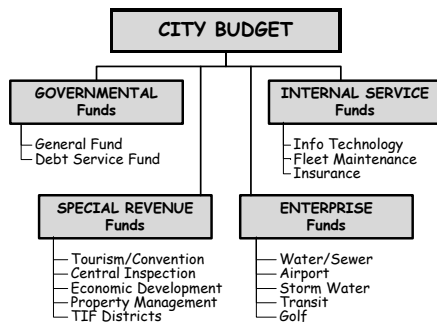
- **Operational Re-engineering** – Efforts to produce cost-saving organizational changes while maintaining or enhancing efficiency and effectiveness.
- **Consolidation** – Review of City programs and services to determine if redundancies exist, and where consolidation can produce cost-savings.
- **Privatization/Outsourcing** – Competitive pricing of government services, to ascertain those services best and most economically provided by City departments and where private companies are better able to provide a lower cost service.
- **Application of Technology** – A continuing effort to use new technologies to lower costs and enhance public programs and services.

BUDGET PROCESS

Fund Structure

The City does not have one budget but many funds, each of which is a legally separate budget. Only two funds, the General Fund and Debt Service Fund, include the property tax as a direct revenue source supporting fund expenditures.

Alice thought the whole thing very absurd, but they all looked so grave that she did not dare to laugh.



Changes in accounting standards (Governmental Accounting Standards Board or GASB #34) have impacted the fund structure of the budget beginning in 2002. Several smaller funds were consolidated into the General Fund. A number of other funds were reclassified from trust to special revenue fund status.

Financial projections are tailored to each fund. Estimates and patterns of revenues and expenditures will vary by fund based on each fund's circumstance.

Citizen Input on Budget Priorities

The adopted 2004-2005 Budget addresses issues raised by the citizens of Wichita. As a part of the ongoing budget development process, Budget staff conducts multiple education sessions on the City's annual operating budget throughout the year. Sessions are provided to various citizen groups, including neighborhood associations, leadership councils, select citizen task forces, schools, and especially District Advisory Boards (DABs). The sessions provide an overview of the City's budget development process, a review of historical information and current trends, and a preview of upcoming budget issues.

A citizen survey has been developed for distribution at these budget presentations to formally collect and

organize citizen input. The City also relies upon feedback at regular DAB meetings, from the Internet, and follow-up sessions with neighborhood association leaders to identify citizen priorities considered most relevant for review and inclusion in the budget development process.

Community priorities identified by the citizen participants include: economic development efforts; at-risk youth programming (especially in the evening hours); infrastructure maintenance (especially storm water drainage and street maintenance projects); municipal court improvements; and neighborhood issues (i.e., code enforcement). There continues to be moderate support for public safety issues, though this issue has abated significantly since Wichita implemented the Public Safety Initiative (PSI) and the Community Policing model in 1995. The PSI was the result of feedback received from citizen input during the early 90's. In spite of recent modest increases, Wichita continues to experience very low crime rates.

Information from surveys and citizen sessions is collected and organized by Budget staff. Priorities are communicated to decision makers throughout the budget development process. As indicated throughout the budget, limited financial resources have been targeted to address those community needs identified as highest priorities by citizen participants. More extensive citizen input opportunities are planned in the Fall 2003 to stimulate dialogue between elected officials, staff and citizens for future budgets.

Financial Planning

Sound financial planning is vital in any corporation, including a municipality.

Oh, don't bother me! said the Duchess. I never could abide figures.

The City's primary goal in financial planning is to maintain the public's trust and confidence in its ongoing financial stewardship of the public purse through long-term financial forecasting, a

balanced budget, cash reserves to absorb cyclical variations in revenues without reductions in services, investor confidence in the City's bond value, and stable tax levies.

The City has established a practice of multi-year budget forecasting. Long-term monitoring of revenues and expenditures helps to avoid recurrence of budget shortfalls leading to service reductions and employee layoffs. The Budget proposes a detailed two-year expenditure plan (2004 and 2005) that is financed from

available revenues. An additional three years (2006-2008) are also forecast for fiscal planning to ascertain the long-term impacts of operating budget decisions.

Another important element in the City's financial plan is a balanced budget, in both the legal and fiscal definitions. This means that annually recurring expenditures (other than one-time costs) are paid from annually recurring revenues. The effort to match annual revenues with annual operating expenditures has also aided the City in another important financial goal – to maintain a stable property tax rate. The City has sustained essentially the same mill levy for eleven consecutive years.

Revenue/Expenditure Forecasting

What's one and one and one and one and one and one and one and one and one and one? I don't know, said Alice. I lost count.

The City's Budget has a multi-year focus: retrospective in reviewing the prior year (2002)

actual revenues and expenditures; current in revising 2003 requirements; prospective in budgeting for the next two years (2004/2005); and forecasting an additional three years (2006-2008). Forecasting the financial future of the City is not a precise science. It requires making assumptions about the future.

To the greatest extent possible, staff has sought to provide a neutral forecast that is neither too optimistic nor too pessimistic. The forecasting effort in the budget process is the product of assembling information from multiple sources, including:

- ▶ Econometric modeling of revenues based on research by Finance staff and WSU faculty,
- ▶ Input from state agencies which forecast various governmental revenues (e.g., Gas Tax),
- ▶ Local economic trends prepared by the WSU Center for Economic Development and Business Research (see pages 5-9),
- ▶ Private sector expertise on select revenue sources (e.g., franchise fees), and
- ▶ Finance and other City department staff who monitor revenue and expenditure trends.

Budget Administration

The budget establishes appropriation and expenditure levels. It is normal with prudent management for "actual" expenditures to be marginally below "budgeted" expenditures by year-end. Organizations often anticipate a level of such expenditure savings in the budget

development. The existence of a particular appropriation in the budget also does not automatically mean funds are expended. Because of the time span between preparing the budget, subsequent adoption by the governing body and the end of the budget year, as well as rapidly changing economic factors, all expenditures are reviewed prior to any disbursement. These expenditure review procedures assure compliance with City requirements and provide some degree of flexibility for modifying programs to meet changing needs and priorities.

CONCLUSION

As elected representatives of the citizens of Wichita, the Mayor and City Council establish the policy framework for development of this adopted budget. The governing body has consistently coalesced around several focal points that reflect what has made Wichita a quality City and will position Wichita to continue to prosper.

These discussions with the Mayor and Council Members, individually and in workshops, as well as

Right, as usual, said the Duchess: what a clear way you have of putting things!

dialogue with other community leaders, citizen groups, and individual citizens provide the key factors for staff consideration in the formulation of the City's operating and capital budgets as Wichita moves forward to:

- address major needs, such as preserving public safety, making critical capital investments and providing effective maintenance and upkeep to the City's assets;
- sustain continued economic development for renewed prosperity in the City;
- serve priorities and needs identified by the community so City services are responsive to the public;
- target resources in ways that are demonstrably beneficial for the entire community; and
- maintain a balanced budget and stable tax levy.

Even in these tough times, the City is moving forward and the Adopted 2004-2005 Budget is part of that progress. Critical issues are being addressed. Wichita continues to be a safe and clean city. Wichita is working within a framework of local and regional partnerships, public and private, to promote future economic prosperity. Wichita has a sound infrastructure network, including a quality water supply. Wichita is continuing to sustain what it builds. Wichita offers amenities and a high quality of life.

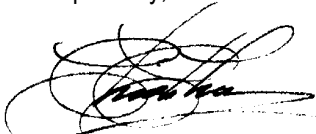
The Adopted Budget was also developed with a view to enhancing the value of City services to the citizens of the community. The Budget addresses important public services, delivered through increased use of technology, emphasizing effective management, and within a prudent financial framework.

The budget as adopted is the best efforts of staff. To achieve a balanced budget addressing public service needs within a stable tax structure meant many difficult choices. Internally within each department, through the Budget Review Cabinet and finally in the Office of the City Manager, staff undertook serious and tough actions to curtail costs, absorbing the impact of inflation and the loss of substantial revenues.

As City Manager, one of my tasks in submitting an annual budget is to *keep the Council advised as to the financial condition and requirements of the City*. In carrying out this responsibility, I am pleased to report the City is moving forward and mitigating adversity even in these tough times. The challenges ahead are numerous, but manageable, if there is a continuing commitment to community, partnerships, hard work, and innovation. The Adopted 2004-2005 Budget has been presented and adopted by you, the governing body. It is time now to move forward with its implementation and administration.

Alice could not help thinking there must be more to come.

Respectfully,



Chris Cherches
City Manager

CC/rt

ACKNOWLEDGMENTS

Formulating the annual budget document is a team effort and the result of countless hours of work. The Budget Review Cabinet was chaired by Cathy Holdeman, and included: Joe Botinelly, Kay Johnson, Doug Kupper, Steve Lackey, Karen Marshall, Tom Stolz, and Karen Walker. This group did a commendable job in evaluating budget requests. Special appreciation and thanks are extended to the Budget Staff of the Department of Finance for their long hours and hard work: Ray Trail, Kelly Carpenter, Rob Raine, Mark Manning, Jay Newton, Kendall Niquette, Trinh Bui and Debbie Osborne.

They're dreadfully fond of beheading here; the great wonder is, that there's any one left alive!"

The City is proud to be the recipient of the Government Finance Officers Association (GFOA) Distinguished Budget Presentation Award for every year continuously since 1989; we believe this budget document will also meet those standards. The City further holds the GFOA Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report, having received this award for more years (29 years) than any other governmental entity in Kansas. The City has additionally received the GFOA Certificate of Achievement for Excellence in Financial Reporting for the City's financial reporting on its retirement systems. The City has also received the Certificate of Excellence Award from the Municipal Treasurers' Association for its investment policy. Finally, the City has been recognized for meeting the standards of the National Purchasing Institute for incorporating all the essential elements of a model purchasing program.

*Wake up, Alice dear, said her sister;
Why, what a long sleep you've had!*

